

Making the Grade

Smallholder Farmers, Emerging Standards, and Development Assistance Programs in Africa

Agro-food standards—including those relating to product quality, food safety, and the environmental and social impacts of production—have become the focus of intense controversy among those concerned with African trade and the potential of establishing linkages that enable smallholder farmers to produce for higher value agro-food markets. Two divergent and very outspoken perspectives have come to dominate the issue. One of them casts standards in a negative light, as barriers to market access that effectively exclude large numbers of African smallholders and small enterprises who are unable to meet the requirements of markets for higher value goods. A contrasting and far more optimistic perspective views standards as providing African smallholders and small and medium enterprises (SMEs) with significant opportunities to differentiate their products in the crowded commodity market space.

Both perspectives have catalyzed an expanding range of development assistance programs. Little of this field of development assistance has been the subject of rigorous impact assessment and with few evaluation materials available in the public domain. Nevertheless, practitioner groups are beginning to share insights and lessons learned from their programs.

Overall, there is evidence of ongoing learning with adjustments being made in the foci and design of recent programs. *Making the Grade: Smallholder Farmers, Emerging Standards, and Development Assistance Programs in Africa* examines the emergence, varied forms, efficacy, and emerging operational lessons of these development assistance programs centered upon African smallholders and compliance with agro-food standards.



Women selecting beans in Senegal.
Photo: Arne Hoel, The World Bank.

The growing body of research documenting the experience of development programs that relate to African smallholders and standards has focused selectively on a narrow field of evidence. Most assessments which have emphasized the problems and costs of complying with standards have focused on the issue of meeting the GLOBALG.A.P standard for fresh fruits and vegetables to supply high-end Western European supermarkets. In contrast, most of the positive “standards as opportunity” literature has focused on compliance with voluntary social and environmental standards—such as “fair trade” or organic—to service niche (yet growing)

market segments for traditional commodities. These situations pose very different sets of challenges for the smallholders involved and the firms seeking to source standards-compliant produce or raw materials from such farmers. Because the challenges and opportunities implicit in complying with standards vary enormously across commodities and market segments, research that focuses on a single commodity, or a particular standard, or market segment, produces findings that are too discrete to use as a basis from which to formulate more general practical advice.

A multiplicity of factors affect the profitability of farmers and firms and which drive them either to enter, exit, or alter their pattern of participation in agricultural supply chains. Standards have become increasingly important in some markets, yet are rarely the dominant or determinant factor in the success or failure of firms and the trajectory of smallholder participation in different markets.

CERTIFICATION AS A PANACEA

Proponents of both the “barrier” and “opportunity” perspectives have pointed to the *certification* of smallholders and their products and production practices as the most effective way to bring these farmers into more remunerative value chains. For those who see standards as a threat, certification provides a powerful instrument to signal compliance and avoid exclusion. For those who see standards as an opportunity, certification of fair trade, organic, or environmentally sustainable products offers an access pass for African farmers to capitalize on demand in high-end niche markets. This convergence of views has persuaded a large number of development assistance programs to focus on certification as a means of verifying compliance to one standard or another. The number of farmers or products certified under such schemes has often been used as a core outcome indicator.

Unfortunately, the development impacts of these strategies have generally been modest. Many of the interventions neglected fundamental issues such as farm-level productivity, supply reliability and aggregation, and farm-to-market logistics – issues that seriously limit competitiveness in higher value markets. Other problems became apparent as well. In order to achieve rapid results within the life of time-bound projects, existing capacity gaps were more commonly “bridged,” using external technical assistance and outsourced auditing services, than “filled” by developing local capacity. This has seriously undermined the sustainability of project impacts, and even where significant impacts have been achieved, the potential of these to be replicated elsewhere and on a larger scale has been limited. Certification



Cows feeding. Photo: East Africa Dairy Development Project (EADD).

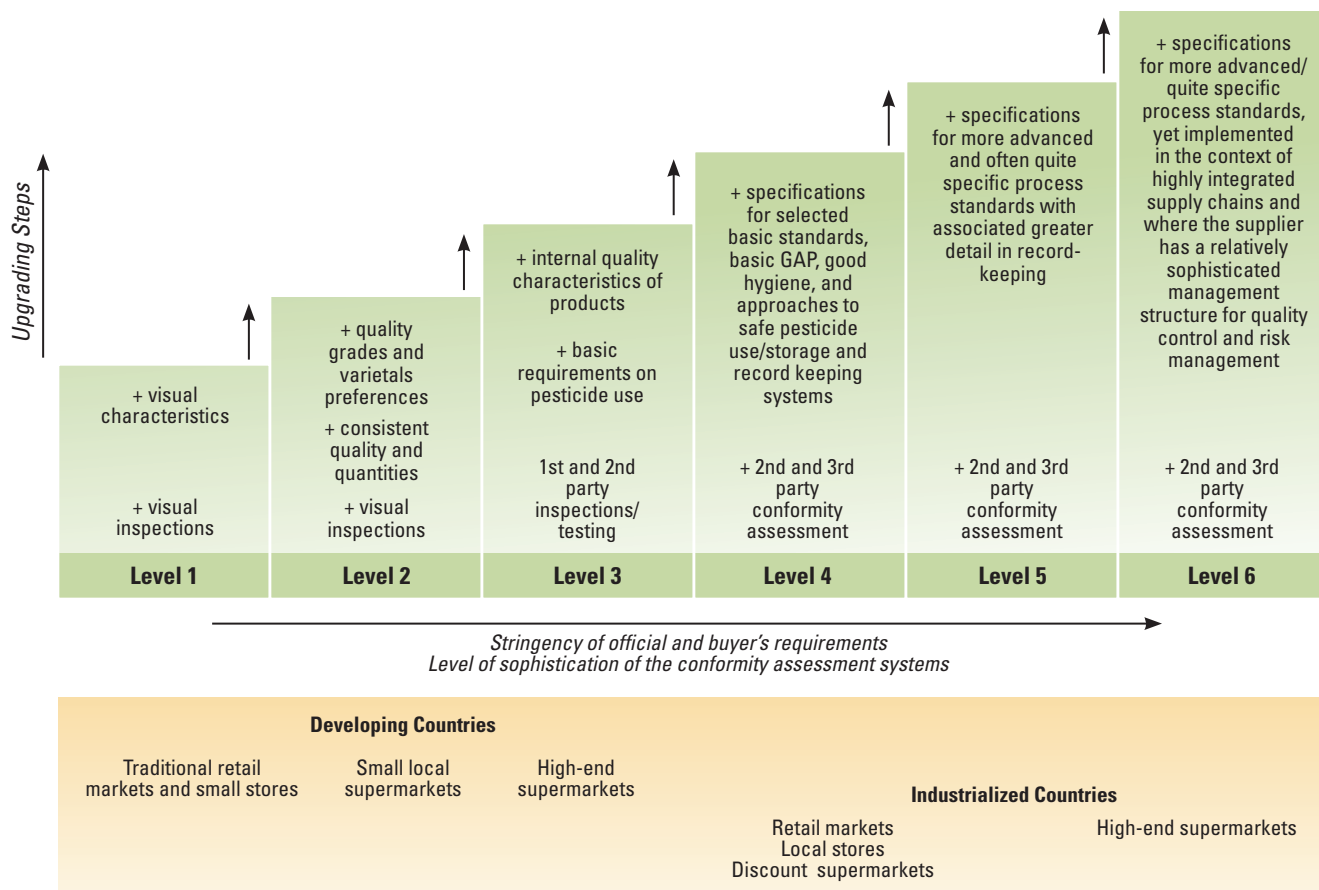
has commonly proven to be more of an economic than a technical challenge. And our understanding of the economic costs and benefits of certification processes remains cloudy, especially given that a very large proportion of the schemes have been heavily subsidized.

Only a small proportion of commerce is certified as fair trade, organic, or sustainably grown. For example, organic or fair trade coffee makes up just 3 percent of total African coffee exports. In Uganda, several recent initiatives have been successful in positioning a very small proportion of the country’s coffee in the market for environmentally certified product. The vast majority of its growers continue to supply the conventional market and face persistent challenges of low productivity, plant disease, and economic viability. These growers have not benefited from certification at all. The situation is similar with regard to horticultural exports. While a growing proportion of EU imports of fruits and vegetables is likely associated with GLOBALG.A.P or other private standards, relatively few African smallholders are currently (or have ever been) linked to the value chains serving high-end European supermarkets. Even in Kenya, which has the largest number of smallholders who regularly supply high-end fresh vegetable commodities, only about 11,500 smallholders are involved. On the other hand, more than 500,000 Kenyan households supply horticultural produce to domestic and regional markets. Where the trade in these products *does* benefit a significant number of people is in the export-oriented commercial farms and pack houses – enterprises which employ more than 200,000 workers. In other African countries in which case studies were carried out, the number of people employed throughout the export horticultural value chain is similarly a very large multiple of the number of smallholder households engaged as suppliers. Focusing attention and public resources to secure and maintain the GLOBALG.A.P certification of the 11,500 smallholder farmers therefore appears to be far too selective a target to benefit a substantial number of people.

SPECTRUM OF MARKET CHOICES AND ASSOCIATED COMPLIANCE CHALLENGES

Perhaps the most fundamental shortcoming of the preoccupation with high-end markets is that it gives rise to a simplistic, dualistic picture of high-value versus low-value markets that ignores or discounts the many intermediate markets in between. Figure 1 presents a much more realistic depiction of a continuum between traditional markets and advanced markets with very exacting standards and the means to monitor compliance to those standards. Between these poles are a series of four intermediate levels, representing from left to right progressively more demanding markets. Levels 4 to 6 represent standards typical of high value agri-food markets – the focus of much of the investment in bringing smallholders into compliance through certification.

FIGURE 1. SPECTRUM OF REGULATORY AND MARKET REQUIREMENTS IN AGRI-FOOD SYSTEMS



The flipside of the emphasis that has been placed on enabling smallholders to participate in these highly discerning downstream markets has been the comparative neglect of domestic and regional markets which are easier to access. Connecting smallholders to these markets entails supporting smaller, less visible, more incremental upgrades in quality and product consistency that have significantly higher chances of success and that can reach vastly larger numbers of smallholders. These smaller upgrades are also more likely to be amenable to local solutions and may be well-served by South-South technical advice that ultimately benefits African consumers as well as producers. Programs supporting these more basic upgrades in on-farm practices, supply chain organization, and product quality are not only much more likely to be successful and sustainable, they are also more likely to be effective in establishing preconditions for more ambitious upgrades in the future.

The World Bank, in collaboration with university and other researchers from Canada and several African countries, undertook a research program titled “Facilitating the Access of Small-Scale Producers to High-Value Markets,” to better inform policy discussions about smallholder markets and standards. The program examined the effectiveness, impacts, and trade-offs between different approaches to help-

ing farmers move into higher value markets by achieving compliance with standards. It included a survey of African fruit and vegetable exporters who accounted for an estimated 88 percent of Sub-Saharan Africa’s fresh horticultural trade (excluding South Africa). The results of the survey were mixed, with evidence that seemed to vindicate both the optimistic and the pessimistic perspectives on the effects that standards have on African smallholders (table 1).

A number of operational lessons emerged from the research program. The following are some of the most important such lessons to inform a more pragmatic approach to enabling smallholders to sustainably engage in high value agri-food markets.

The most important opportunities to achieve the widest impacts among the largest numbers of farmers, and where the chances of success are highest, are most likely to exist in levels 1 through 3. In most African countries, there are ample opportunities to increase smallholder productivity and upgrade product quality at these levels. These lower level markets afford African farmers with substantial latitude to “step up,” and with a manageable amount of additional investment, distinguish their supply from the norm. Cumulatively, these smaller upgrades can ultimately

TABLE 1. EVIDENCE OF SMALLHOLDER EXCLUSION FROM HORTICULTURE EXPORT VALUE CHAINS

Results supporting optimistic views	Results supporting pessimistic views
<p><i>Many exporters have developed and refined a procurement system built on a combination of “make” and “buy,” with direct (and sometimes indirect) sourcing from smallholders being a critical part of the “buy” portfolio, especially for labor-intensive crops.</i></p> <p>Exporters are well aware of the advantages and limitations of sourcing from smallholders. Yet they also understand the constraints and risks involved in sourcing large quantities of produce from their own farms and from those of larger outgrowers.</p>	<p><i>The overall numbers of smallholders reported to be supplying the main product to respondent firms declined from 2002 to 2007, with significant proportional declines in the procurement arrangements for SMEs.</i></p> <p>While noncompliance may have played some role in this decline, other factors were clearly involved. More than half of the decline is attributable to companies whose customers do not enforce food safety standards (or most of whose customers do not).</p>
<p><i>Large companies, in particular, have continued to substantially draw upon smallholder supplies and then to implement bimodal procurement systems combining their own farm-integrated supplies with those sourced from smallholders.</i></p> <p>These companies account for the bulk of Africa’s fresh produce exports. To the extent that these companies continue to see the strategic advantages of smallholder sourcing, there will likely be ample opportunities for remunerative involvement by smallholders.</p>	<p><i>Very high levels of turnover of smallholders involved in the procurement for all size categories of companies were reported. This finding suggests fluidity in smallholder participation, with many entries, exits, and shifts in involvement.</i></p> <p>Export-oriented horticultural production entails considerable production and commercial risk. If a large proportion of smallholders are engaged in this activity only periodically and are not immersed in the management systems of leading or long-standing companies, then the prospects for remunerative and sustainable participation are not strong.</p>

lead to smallholder participation in high-end markets. When targeting specific groups of farmers it is essential to gauge their “starting point” and support incremental upgrades and market re-positioning. Experience has shown that attempts to bring about transformative “great leaps forward” (i.e. preparing farmers with formerly very limited commercial experience and weak group structures to compete in stringent high end markets) have frequently failed, due to high risk and/or unsustainable costs.

Identify reasonably strong and organized industries in which “lead firms” have effective commercial strategies and the managerial and technical capacity to carry those strategies out. In the context of emerging standards, “lead firm” strategies have tended to be more successful in linking larger numbers of smallholders to standards-based markets than have “bottom up” efforts involving upgrading farm practices first and then seeking market outlets. The “lead firms” have a reliable set of downstream clients plus the technical and managerial capacity to support the upgrade of farm-level practices and ensure quality control. These attributes reduce the technical and commercial risks faced by the participating farmers and provide a basis for scaling up results. Initiatives that sought to introduce higher product or production standards in weak and fragmented industries have seen little success because underlying productivity and managerial weakness have remained unresolved. These persistent weaknesses prevent gains from being sustainable or translating into enduring increases in commercial profits or farmer incomes.

Many programs have also sought to re-position SMEs in standards-based markets as part of efforts to promote private sector development and/or assist smallholder farmers. This approach has promise yet also risk. The latter is especially the case in efforts to reorient firms down the path of a specific standard, rather than seeking to upgrade their general capacities for marketing, quality management, supply chain management, etc. Aiming SMEs at specific standards sometimes exposes them to a level of financial risk and technical challenges that they cannot manage without the intensive resources provided under the donor program. When the program ends, some of these companies have found themselves “caught in the middle,” having invested in changes and raised their cost structure without achieving compliance with a particular standard or the ability to meet other requirements of buyers – such as volume. These difficulties then spill over to the smallholder farmers who have aligned themselves to such firms. Therefore, the structure and maturity of an industry should strongly influence the design of standards-related and complementary interventions.

This ARD Note was prepared by Steven Jaffee, Luz Diaz Rios and Gunnar Larson, based on the report “*Making the Grade: Smallholder Farmers, Emerging Standards, and Development Assistance Programs in Africa*,” published by the Agriculture and Rural Development Department of the World Bank. The report provides a synthesis from a multi-year collaborative research program involving the World Bank, the University of Guelph, and a team of African researchers. Find the report at www.worldbank.org/ard.

